

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

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USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 CPR-01 OPR-02

SY-05 A-01 INT-05 FEA-01 /098 W

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R 292152Z MAR 77

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 3700

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 2039

E.O. 11652: GDS

TAGS: EINV, ENRG, PFOR, EC

SUBJECT: TEXACO NEGOTIATING WITH GOE ON ECONOMIC PACKAGE AND  
OTHER OUTSTANDING ISSUES

REF: QUITO 1724

### 1. BEGIN SUMMARY. VISITING HIGH-LEVEL TEXACO OFFICIALS

HAVE BEEN SURPRISED TO FIND THE GOE NOW EAGER TO SETTLE THE  
ISSUES CONCERNING DECREE 285 AND OVER-RETENTIONS OF INCOME  
TAXES. TEXACO VP SHIELDS TOLD EMBOFFS MARCH 28 THIS  
APPARENT SUDDEN CHANGE ON THE GOE'S PART COMES AT AN  
OPPORTUNE TIME, BECAUSE TEXACO HAS BEEN NEARING THE END OF  
ITS PATIENCE RE THESE AND OTHER ISSUES, AND SHIELDS SAID  
HE HAD TOLD THE GOE FINANCE MINISTER EARLIER ON MARCH 28  
THAT IF AGREEMENT ON ALL ISSUES CONTINUES TO APPEAR ELUSIVE,  
TEXACO WILL WANT TO BEGIN DISCUSSIONS LEADING TO TEXACO'S  
WITHDRAWAL FROM ECUADOR. TEXACO AND GOE OFFICIALS ARE TO  
HOLD A SERIES OF MEETINGS THIS WEEK AND TRY TO HAVE RESULTS  
TO PRESENT FOR THE SUPREME COUNCIL'S CONSIDERATION IN THE  
EARLY DAYS OF APRIL. MEANWHILE, BECAUSE OF CEPE'S LAGGING  
SALES OF CRUDE OIL, STORAGE TANKS ARE LOADED HIGH, AND  
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TEXACO HAS ACCORDINGLY CUT BACK PRODUCTION FROM 190,000  
TO 80,000 BARRELS PER DAY. END SUMMARY.

2. TEXACO VICE PRESIDENT BOB SHIELDS, TEXACO PRODUCTION  
MANAGER MAX CRAWFORD AND LOCAL TEXACO MANAGER MIKE MARTINEZ  
CALLED ON CHARGE, E/C COUNSELOR AND PETROLEUM OFFICER  
EVENING OF MARCH 28 TO DISCUSS PROGRESS OF TEXACO'S

NEGOTIATIONS WITH GOE, TO INQUIRE ABOUT RECENT ACTIONS TAKEN BY GULF TO SPEED UP SETTLEMENT OF OUTSTANDING ISSUES, AND TO EXCHANGE VIEWS ON THE CURRENT AND PROSPECTIVE PETROLEUM SITUATION IN ECUADOR.

3. SHIELDS SAID TEXACO HAS NOTED A RECENT POSITIVE CHANGE OF ATTITUDE IN THE GOE. NATURAL RESOURCES SUBSECRETARY PARODI HAD CALLED IN THE TEXACO OFFICIALS THE PREVIOUS DAY TO DISCUSS DECREE 285 AND HAD SHOWN EAGERNESS TO SETTLE THE ISSUES ARISING FROM IT; AND FINANCE MINISTER SEVILLA, IN A MEETING THE MORNING OF MARCH 28, HAD MET WITH THE TEXACO OFFICIALS AND AFFIRMED HIS EAGERNESS TO RESOLVE THE PROBLEMS OF OVER-RETENTIONS AND OTHER TEXACO COMPLAINTS.

4. SHIELDS REPORTED HE TOLD SEVILLA THAT TEXACO WANTED AGREEMENT ON ALL OUTSTANDING ISSUES (DECREE 285, THE LIFTING AGREEMENT, THE INVESTMENT PROGRAM AND THE RELATED ELEMENTS OF THE ECONOMIC PACKAGE) SOON FAILING WHICH, TEXACO AND THE GOE MIGHT AS WELL BEGIN DISCUSSIONS LEADING TO TEXACO'S WITHDRAWAL FROM ECUADOR, SHIELDS TOLD SEVILLA. SHIELDS SAID HE MADE CLEAR TO BOTH PARODI AND SEVILLA THAT TEXACO WOULD NOT SETTLE DECREE 285 WITHOUT IMPLEMENTATION OF THE LIFTING AGREEMENT BETWEEN TEXACO AND CEPE, NOR IMPLEMENT THE INVESTMENT PROGRAM WITHOUT GOE APPROVAL OF THE ECONOMIC PACKAGE TO PROVIDE TEXACO AN INCREASED RETURN ON ITS INVESTMENT.

5. SHIELDS SAID HE REACHED AGREEMENT WITH BOTH PARODI AND CONFIDENTIAL

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SEVILLA THAT TEXACO AND GOE OFFICIALS WOULD MEET THIS WEEK ON ALL OUTSTANDING ISSUES AND TRY TO HAVE SOME RESULTS TO PRESENT TO THE SUPREME COUNCIL LATE NEXT WEEK. SHIELDS SAID HE PLANNED TO MEET PERSONALLY WITH THE SUPREME COUNCIL TO DISCUSS THESE MATTERS NEXT WEEK, AND WOULD KEEP THE EMBASSY INFORMED.

6. SHIELDS SAID HE WAS PLEASED BUT CURIOUS REGARDING THE GOE'S APPARENT WILLINGNESS TO SETTLE TEXACO'S PROBLEMS, AND TO GIVE SPECIAL PRIORITY TO DECREE 285 AND THE OVER-RETENTIONS. HE SPECULATED THIS SIGNIFIED THAT GULF WAS GETTING READY TO TAKE SOME SORT OF ACTION "TO RESERVE ITS RIGHTS" REGARDING THE SALE OF CEPE'S CRUDE, AND ASKED THE CHARGE IF THIS SPECULATION WERE CORRECT. CHARGE INDICATED THAT, TO HIS KNOWLEDGE, GULF HAD MADE NO THREATS; AND TOLD SHIELDS IN VERY GENERAL TERMS ABOUT THE APPROACH REPORTED IN THE REFTEL AND SUBSEQUENT USG ACTIONS TO SPEED UP SIGNING OF THE GULF AGREEMENT. (SEVILLA HAD ALREADY TOLD SHIELDS ABOUT THE

USG LETTER OF ASSURANCE.) THE CHARGE ADVISED SHIELDS TO MOVE QUICKLY WITH HIS NEGOTIATIONS, SINCE DISAPPOINTMENT WITHIN THE GOE REGARDING SECURITY ASSISTANCE FROM THE USG MIGHT SPILL OVER INTO NEGOTIATIONS WITH TEXACO.

7. SHIELDS ALSO TOLD THE CHARGE THAT TEXACO AS CONSORTIUM OPERATOR HAD NOTIFIED CEPE MANAGER MIRANDA AND NATURAL RESOURCES MINISTER SEMBLANTES THAT TEXACO WAS CUTTING PRODUCTION FROM ROUGHLY 190,000 TO 80,000 BPD BECAUSE THE TANKS IN THE PORT OF BALAO ARE FULL DUE TO CEPE'S FAILURE TO SELL ITS CRUDE.

8. COMMENT: SHIELDS WAS OBVIOUSLY ON A FISHING EXPEDITION, BUT SINCE SETTLEMENT OF DECREE 285 AND OVER-RETENTIONS AFFECTS TEXACO AND GULF EQUALLY, THE EMBASSY BELIEVES TEXACO SHOULD BE KEPT INFORMED OF USG ACTIONS MATERIALLY AFFECTING TEXACO'S OPERATIONS IN ECUADOR. THE EMBASSY  
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DOES NOT HAVE A READING ON THE SERIOUSNESS OF SHIELDS' REMARK TO SEVILLA--REPEATED TO US--REGARDING TEXACO'S POSSIBLE WITHDRAWAL FROM ECUADOR IF TEXACO'S PROBLEMS ARE NOT SOON RESOLVED.

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## Message Attributes

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